



HI-TECH
PIPES LIMITED

21st November, 2018

To
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra Kurla Complex-Bandra(E),
Mumbai-400051,

Symbol: **HITECH**

Subject: Q2 FY2018-19 Earnings Conference Call Transcript

Dear Sir,

With reference to our letter dated 12th November, 2018 regarding the intimation of Analyst/ Investor Conference Call on the Un-Audited Financial Results (Standalone and Consolidated) for the second Quarter and half year ended 30th September, 2018.

In this regard, find enclosed the transcript of the conference call as required under Regulation 30 read with Part A of schedule III of SEBI(Listing Obligation and Disclosure Requirements) Regulations, 2015.

The transcript of the conference call is also made available on the Company's website viz.: www.hitechpipes.in

Kindly take the above information on record and oblige.

Thanking You

For Hi-Tech Pipes Limited
For HI-TECH PIPES LTD.


Arun Kumar **Company Secretary**
Company Secretary &
Compliance Officer

Encl: a/a



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“Hi-Tech Pipes Limited Q2 and H1 FY19 Earnings
Conference Call”

November 19, 2018



MANAGEMENT: MR. ANISH BANSAL – EXECUTIVE DIRECTOR, HI-TECH PIPES LIMITED
MR. ARVIND BANSAL – CFO, HI-TECH PIPES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hi-Tech Pipes Limited Q2 and H1 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anish Bansal. Thank you and over to you sir.

Anish Bansal: Good afternoon everyone. Welcome to Hi-Tech Pipes Limited Earnings Conference Call for the quarter and half-year ended 30th September of financial year 2019. Firstly, please excuse me for my voice, I am just facing a bad throat at the moment.

I would like to begin by expressing my gratitude to you all for taking the timeout to join us today. On the call with me today is Mr. Arvind Bansal, the CFO of our company. For those who are joining for the first time, I would like to start by giving a short introduction about the company and share the progress we have made since inception.

I would also like to put up our performance in a strategic context and throw some light on the foundation we have been building for Hi-Tech Pipes Limited and other growth prospects in the near future. Our company was established in 1986. Over the last few decades, our company has emerged as a strong player in the tubes and pipe sector with a wide geographic presence with more than 300 dealers and distributors across India. We entered the manufacturing segment in 1988 with setting up of our first ERW steel pipes unit at Sikandrabad, Uttar Pradesh. From 1996 to 2012, we have added manufacturing of cold rolled coils, strips, hot dipped galvanised products, hollow sections and solar mounting structures at Sikandrabad facility. In the year 2015, we expanded our geographical presence in Sanand, Gujarat and started another state-of-the art technologically advanced production facility to manufacture steel tubes and hollow sections. In 2016, we then started our third manufacturing unit at Hindupur in Andhra Pradesh with 60,000 metric tonnes per annum capacity, which later was increased to 1,20,000 tonnes per annum.

In line with our focus on capacity expansion and higher margin products, we started our galvanising facility at Hindupur. In order to reduce electricity cost, we installed solar power project at Sanand and also will be installing at Hindupur facility in coming months and further expanding our solar power project at Sanand. I would like to state that our company had completed the installation of an additional manufacturing line with the capacity of 60,000 tonnes per annum at Sanand, Gujarat. This will enable us to produce larger diameter pipes and also completing our complete product portfolio. This development will help us to reach out to a wider customer base with our increased product offerings as we will now be able to produce more quality products in different sizes and range which includes round pipes, square and rectangular hollow sections. We are on the right track to achieve our target which we have, further we are in line for further increasing our capacity of cold rolled steel products by 60,000

tonnes per annum for automobile segment at Sikandrabad facility and we expect that to be operational by Q4 FY19.

I am glad to share with you all that the company has also been awarded with secondary steel sector trophy by Minister of Steel Government of India in the month of September. Today with our four state-of-the art manufacturing units located at Sikandrabad, Sanand and Hindupur, we are at the total installed capacity of 3,60,000 tonnes and we are equipped with all the latest machines and sophisticated testing equipments, which can produce high quality products as per the requirement of the clients. Our product offerings now span across steel pipes, hollow sections, cold rolled coils, stripes, road crash barriers, solar mounting structures among varied other galvanised products. We are approved with all the major public and private sector undertakings and are market leaders in the highway crash barrier segment. Our company is well focused on adopting cutting edge technology, which helps us to achieve better capacity utilization and reduce our operational costs resulting in high margins. With this latest technology and state-of-the art manufacturing facility, we are able to manufacture superior quality products with time and cost efficiencies which are well accepted and appreciated by our clients. We are confident of emerging as a strong brand across the country. Going forward, our focus remains on execution and increasing operational efficiencies which will be key to our success and further strengthen our position and help us to grow in future.

Now, coming to the financial performance of the quarter and half year ended September 30th 2018. Our financials for the current and past quarters have been restated as per Ind-AS accounting guidelines. The volumes for the quarter increased by 8% to 65,947 metric tonnes as against 60,823 metric tonnes in Q2 FY18. Net revenues from the operations were at 339.4 crores in this quarter, a year-on-year growth of 34% as compared to 252.5 crores in Q2 FY18. Our EBITDA for the quarter stood at Rs. 18.8 crores as compared to Rs. 16.7 crores in the corresponding previous quarter Q2 FY18, a growth of 12%. The EBITDA per tonne in Q2 FY19 stood at Rs. 2,851 as against of Rs. 2,748 in Q2 FY18, a year-on-year increase of 4%. The profit after tax stood at over Rs. 6.6 crores in Q2 FY19 as against Rs. 6.2 crores in the corresponding previous quarter, Q2 FY18, year-on-year growth of 3%.

Now coming to the half yearly performance, the net revenue from the operations stood at Rs. 661 crores in H1 FY19 as against Rs. 454 crores in H1 FY18, a year-on-year growth of 45%. The half-year EBITDA stood at Rs. 36.24 crores as against Rs. 29.97 crores in the corresponding previous period, a significant growth of 21% year-on-year. The EBITDA per tonne in H1 FY19 was at Rs. 2,877 as against Rs. 2,739 in H1 FY18, a year-on-year growth of 5%. Profit after tax is Rs. 13.14 crores in H1 FY19 as compared to Rs. 10.68 crores in H1 FY18, a year-on-year growth of 23%. Our focus continues to remain on achieving profitable growth by adding newer products and value-added products through upgradation of our production facilities at all the locations and exploring new geographies and new markets for our products. I would once again like to thank everyone for your time and attention. We can now please take the questions.

- Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Viraj Parekh from KR Choksey. Please go ahead.
- Viraj Parekh:** Sir, I have a couple of questions. First, if you could guide me towards our current capacity utilization?
- Anish Bansal:** Viraj, as on Q2, we are at 73% capacity utilization.
- Viraj Parekh:** And typically, when do we take our planned shutdowns or what is the schedule like?
- Anish Bansal:** These are schedules, they are done every quarterly. There are days fixed for the planned shutdowns and they follow a particular timeline for the maintained schedule. So it is spread across the year.
- Viraj Parekh:** So, approximately sir, if you could give me an idea, how many days in a quarter would the shutdown be?
- Anish Bansal:** Approximately 2 days per quarter.
- Viraj Parekh:** And sir secondly, I wanted to know, what is the kind of growth or the vision that you are seeing for the company and the sector overall for the next 2 to 3-year span, if you could give us some flavour on that, industry and obviously being specific to Hi-Tech pipes as well?
- Anish Bansal:** Viraj, our idea and our vision is to have a 10% market share in the tubes and pipe segment by FY20-FY21 and the market size roughly in FY20-FY21 should be around 10 million tonnes.
- Viraj Parekh:** Alright.
- Anish Bansal:** So this is the vision and we are going step by step and at the end of FY19, we will be approximately close to half a million tonnes capacity.
- Moderator:** Thank you. The next question is from the line of Ankit Merchant from SMC Global. Please go ahead.
- Ankit Merchant:** I would like to understand about the EBITDA per tonne per product, if you could share some light on that, how much was it for tubular steel price, flat steel and engineered products for this particular quarter, that's my first question?
- Anish Bansal:** Our EBITDA per tonne for pipes on a blended basis, it is Rs. 2800 per tonne and cold rolled is Rs. 3300 per tonne and other galvanised products, engineered products, they are around Rs. 2500 per tonne.

Ankit Merchant: My second question is related to the overall scenario in the industry because what we have heard is that over the last 3 months, the demand has actually come down, it has fallen down, major reason has been the real estate slowdown, so how do you see this particular scenario framing up for the next 6 months. Also, what we have also understood is there is lot of competitive intensity because the demand now has come down, most of the players have resorted to gaining market share and trying to snatch each other's market share, so can you share some light on this front for the steel, I am talking about for the steel pipes segment?

Anish Bansal: Ankit, historically what we have seen over last many decades, quarter 2 is the monsoon quarter and we always see there is a dip in demand because of the monsoon and this year has been slightly worse because of the Kerala floods and also the transport strike in the month of July that had a significant impact on the entire industry, not only steel tubes and pipes, but there were virtually no dispatches, no arrival, no outgoing for 10 days in the month of July, so that had an impact on the sales and the production. So Q2 generally, it is down. From medium terms perspective, I don't see a dip in demand because if construction is slow, but then other sectors, they are doing enormously well, like the power distribution segment is doing very well, the telecom towers is doing very well, the city gas distribution that has picked up, the water transportation, the irrigation and this is picking up quite smoothly. The poly houses, green houses, we are seeing great amount of demand for galvanised products, so there will be sectors which will slow down, but there will be sectors which will perform better than usual. So on a blended basis, we don't see any more challenge. I understand the capacity is there, the combination is there probably for a month or so where there is dip in demand because of monsoon, otherwise things seem to be quite stable.

Ankit Merchant: Sure, and in this quarter did we try gaining some market share?

Anish Bansal: Not just this quarter, we are doing this for every quarter.

Moderator: Thank you. The next question is from the line of Sailee Parekh from Prabhudas Lilladher. Please go ahead.

Sailee Parekh: Anish, I had a couple of questions. First being can you provide me some kind of volume guidance for the remaining half of this year?

Anish Bansal: Sailee, we are hoping and expecting to be at the same level of capacity utilization for the rest of the year, so we should be around 73% to 75% capacity utilization for the rest of the year.

Sailee Parekh: Okay, you are talking on 3,60,000 capacity only, right because the additional 60,000 is coming at the fag-end of this year?

Anish Bansal: Yes, correct.

Sailee Parekh: My other question was in Q2, did we have any production being added from the Sanand capacity?

Anish Bansal: The trials are going on, so it is not a significant number which I can tell you because they are trying each and every size. So I think by end of this month, we will be totally, we will be finished with the trials in production and in December we can expect commercial production to commence.

Sailee Parekh: My next question was on the debt front, can you please tell us what your plans are on deleveraging because if one sees your half year balance sheet, debt equity has increased, so I just wanted to know what is the sustainable level of debt going forward?

Anish Bansal: See, debt equity to the best of my knowledge, it has gone down by 5 basis points.

Sailee Parekh: But for the full year because earlier based on I think whatever interactions I have had with you, I was looking at a much lower debt to equity ratio, so I was just wondering if this is a half year phenomenon and does this correct itself by the end of the year or is about two times what we are looking at as debt to equity for this whole year?

Anish Bansal: Debt to equity to the information that has been with me, it was at 2.14 and now it has come to 1.99 as on FY19, so this will come down, may be because the Sanand, we are expecting Sanand to be operational by Q2, but now it will be happening in Q3, so there is a lag of like 3 to 4 months, but this will come down proportionately. And going forward because of the increased capacities, the company had requirement of some working capital, so only that is the addition and also as you are aware, the steel prices have risen by 10 to 15% within this financial year. So to maintain the same capacity utilization, the company has needed funds, but we see the price is now tapering off, so there should not be any increase from here.

Sailee Parekh: So very specifically, we are at about 74 crores of long-term debt at the end of H1. By the end of this year, what kind of debt levels are we looking at?

Anish Bansal: Sailee, it should be similar.

Sailee Parekh: I mean you are including the capacity that is going to go on stream in Q4, the CAPEX towards that even after including that you are saying will remain at similar debt levels?

Anish Bansal: I think about 16 to 17 crores is lying in the CWIP, so it should not, the major CAPEX has already been done.

Sailee Parekh: And for the coming year, do we have any kind of repayment schedule or it will continue to remain at these levels?

- Anish Bansal:** Repayment is there. I think it will begin from FY20 onwards.
- Sailee Parekh:** Okay, so the next year will also see similar debt levels then?
- Anish Bansal:** Approximately.
- Sailee Parekh:** And my last question was on CAPEX, if you can just tell me what is the CAPEX for FY19 and what will be the CAPEX for FY20 please?
- Anish Bansal:** See, as of FY19, we have a total CAPEX of 30 crores and out of this, I think about 24 crores is in CWIP, so which has already been incurred and I think the balance 5 to 6 crores, the internal accruals should take care of that.
- Sailee Parekh:** And in FY20?
- Anish Bansal:** FY20, there is no such.
- Sailee Parekh:** No major CAPEX, you might just have some maintenance CAPEX happening?
- Anish Bansal:** Some little maintenance CAPEX, that is it.
- Sailee Parekh:** My other question was you have given us the EBITDA per tonne on ERW, CR and engineering products for Q2, I am sorry but I don't have the data for the corresponding quarter of last year. Could you please share that number with me if you have that?
- Anish Bansal:** I couldn't be having that off hand, but I can certainly give it to you post the conference call.
- Sailee Parekh:** Okay and then do you have these numbers for Q1 of this year?
- Anish Bansal:** Q1, yes I think we would be having, if there is any specific information that you will still require?
- Sailee Parekh:** No, the ERW, CR and engineering, would you have it right now for quarter one of this year?
- Anish Bansal:** Not as offhand of Q1.
- Sailee Parekh:** Okay, I will take it from you after the call. And the other question was on the tax rate. For the full year, do we still work with the 30% tax rate as we have discussed earlier because for the half year, it has gone up to about 33%, so I am just wondering what is the tax rate that we are looking at for the whole year?
- Anish Bansal:** It is 30% plus 10% surcharge. This has been the case, 33% is the chargeable but we are paying MAT. MAT around 20%-21%, the cash outflow.

Moderator: Thank you. The next question is from the line of Kalpesh Gothi from Valentis Advisors. Please go ahead.

Kalpesh Gothi: Sir, I just heard Q2 generally being a weak quarter and this quarter will be many events, so how the volume growth in the October and November how we see?

Anish Bansal: The October, November is not, you can say on the higher side, it is at the same level as of Q2 because we have seen the monsoon getting delayed this year, so October also had an impact but we see this getting stabilized and the demand should actually pick up from December onwards.

Kalpesh Gothi: I think you said about the utilization for the full year will be 75%, can you be specific how much metric tonnes we can close in FY19?

Anish Bansal: Approximately in excess of 2,75,000 and 2,80,000 tonnes.

Kalpesh Gothi: And we have done 1,25,000, right?

Anish Bansal: Yes.

Moderator: Thank you. The next question is from the line of Sailee Parekh from Prabhudas Lilladher. Please go ahead.

Sailee Parekh: Anish, any guidance you would like to give on the EBITDA per tonne for the rest of the year?

Anish Bansal: Sailee, without over committing, I can say that we are confident and we will be able to maintain these EBITDA per tonne levels.

Sailee Parekh: The Q2 levels?

Anish Bansal: Yes.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.

Abhishek Jain: Sir, how much steel price hike we are able to pass on?

Anish Bansal: We are able to pass on the price increase or decrease, there is a lag of about 10 to 12 days.

Abhishek Jain: Lag of 10 to 12 days? And in terms of percentage, how much percentage of steel price hike we are able to pass on?

- Anish Bansal:** Whatever it may be depending on month to month, for example if there is change of Rs. 1000 per tonne for the month of November or December, so we are able to add that price increase or decrease in our built-in costs.
- Abhishek Jain:** And sir, your realization has been increased due to steel price hike and can you just differentiate between how much was due to the steel price hike and how much was due to the genuine demand increase?
- Anish Bansal:** There are two components to this. The realization has gone up because of the steel price hike as well as the increased contribution of higher value-added products in our organization. I think I will give you precise information post call regarding how much is from the steel price and how much is it from the value-added segment.
- Abhishek Jain:** Sir, our value-added segment, how much difference they contribute to the EBITDA in our levels?
- Anish Bansal:** Right now, in our total segmentation, we are at around 15% to 20% of the higher value-added product segment.
- Abhishek Jain:** And how much they contribute, like in EBITDA?
- Anish Bansal:** It should be the same amount, 20%.
- Abhishek Jain:** How much is difference between normal EBITDA and the value-added products EBITDA. That is what I am trying to ask?
- Anish Bansal:** Value-added EBITDA is around Rs. 3600 per tonne.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Anish bhai, my question is regarding this procurement of steel as you were mentioning in the last quarter, there you were seeing some difficulty in the industry, there was a very tight type of in terms of supply, how is the scenario right now? And how does it benefit the stronger players when it comes to the procurement?
- Anish Bansal:** Dhaval bhai, the thing is we are seeing some steel prices softening globally, but not in India but there should be some softening of steel price in India, we are expecting in Q3, this ongoing quarter that means.
- Dhaval Shah:** Is the material now available easily, I think in Q1, you were mentioning little bit, the ease of price availability was not there?

- Anish Bansal:** Irrespective of the price, the supplies are still not adequate as per the demand because the Indian mills they are exporting at least 15% to 20% of their volumes, so that is they are drying up the material in the Indian market, but as among the top producers, we suddenly take advantage of the situation because as you know with Steel Authority of India, we are the national key account and so they have to fulfil the requirements of national key account customers first and then to the markets. There are only 3 national key accounts in India.
- Dhaval Shah:** So this should be helping you vis-à-vis the competition in terms of your cost also and in terms of meeting the required volume for your customer?
- Anish Bansal:** Yes. As Hi-Tech, we are not facing any raw material challenges but the industry as on whole is definitely facing the nominal crunch.
- Dhaval Shah:** And how about the competition intensity in terms of the smaller mill and also the unorganized sector, how is it behaving, so our case was that there will be a gradual shift happening. Are you seeing that unorganized back in the same way of doing business?
- Anish Bansal:** No definitely, we don't see like unorganized getting back was earlier. They were entirely playing on the taxes front but after GST, it has come down drastically, the share of unorganized business.
- Dhaval Shah:** Has any smaller mill shutdown in past 6 months and one other business become weaker, you have sort of taken the market share, anything of that thought, any particular geography you have seen that thing happening?
- Anish Bansal:** Dhaval, it is happening all over the country, but we also don't realize, we only come to know on a year to year basis, like what was the capacity and what was it but there are like numerous mills which were fragmented and we realize that they are not in business anymore.
- Dhaval Shah:** And just one question if I can, this year business driven a lot by the buyer distributors and numerous products are there, any angle of creating a brand awareness, maybe not likely by advertising as a layman would know it, but how are we strengthening our brand in the B2B segment to the direct customers, any way of differentiating, one is that you must be differentiating by the way of offering SKUs and timely delivery but anything in terms of strengthening the name Hi-Tech in the market?
- Anish Bansal:** Dhaval bhai, it is very important for us to create customer awareness for our products while giving quality products and giving timely deliveries and giving lot of products but we also have to educate them about their usage also. What we are doing is we are holding fabricator meets because these tubes are predominantly are being used by the fabricators, so we are doing fabricator meets along with our major distributors and they educate the fabricators about the

usage, about the quality and they just enlighten the fabricators how best we can utilize the product. So this activity goes on round the year and at all the geographies.

Moderator: Thank you. The next question is from the line of Ankit Merchant from SMC Global. Please go ahead.

Ankit Merchant: Can you stress a little bit more on the suppliers front, so how much does the sales form as a part of the procurement and do we also rely on the suppliers, can you even name them?

Anish Bansal: We are holding MoUs with all the mills and they are more or less at equal percentage.

Ankit Merchant: So any supply disruption you haven't seen from any of the mills which you have been associated?

Anish Bansal: We are having the long-term supply contracts with all the mills, so raw material is not the challenge for us.

Ankit Merchant: So even Bhushan, you have some exposure to Bhushan as such?

Anish Bansal: Yes.

Ankit Merchant: So were there any supply disruption from their end?

Anish Bansal: No, not so far.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.

Abhishek Jain: Sir how much is the normal delivery time for our products and sir what we are doing for reducing our working capital days for the same?

Anish Bansal: Sir, normal lead period is 6 to 7 days for the raw material and 2 to 3 days for the finished goods. This is the in-transit period that you are talking about, right.

Abhishek Jain: And sir, are we doing anything to reduce our working capital days?

Anish Bansal: Sir, yes as you will see, we have reduced our net working capital days by 4 days in Q2 FY19 this quarter, the net working capital days.

Abhishek Jain: What additional measures we are taking to reduce our working capital days going forward because we are going for the volume thing?

- Anish Bansal:** With our plans to maintain some stocks for us which we can lift immediately, so that we don't have to hold on to the raw material inventory for long and similarly, we are also discussing with our distributors, so that they can give us advanced planning, so that as we can produce it we can sell it and we don't have to keep much material in stock.
- Abhishek Jain:** Okay, got it but my question is like will we compromise for working capital days at a cost like if our volume is increasing?
- Anish Bansal:** No sir, both are equally important. While increasing the production, we also have to bring down the working capital days also.
- Abhishek Jain:** And any of the product recently we have hiked the prices for that per say?
- Anish Bansal:** We have hiked prices for some cold rolled products for different applications for this month.
- Abhishek Jain:** To which quantum, like percentage term?
- Anish Bansal:** Percentage term, this we cannot quantify it in percentage term, but this business constitutes about 2500 to 3000 tonnes per month.
- Moderator:** Thank you. As there are no questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Anish Bansal:** Thank you everyone for your precious time. We will now look forward to the Q3 results. Thank you.
- Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of Hi-Tech Pipes Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.